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October 1, 2007

Eric A. Cioppa, Acting Superintendent  
c/o Vanessa Leon  
Docket No. INS-07-1000  
Maine Bureau of Insurance  
34 State House Station  
Augusta, Maine 04333-0034

*Re: Anthem BCBS 2008 HealthChoice Individual Rate Filing*  
Filing coversheet

Dear Superintendent Cioppa:

Enclosed for filing please find the following:

SUBMITTED BY: Christopher T. Roach  
DATE: October 1, 2007  
DOCUMENT TITLE: Anthem BCBS Response to First Information Requests of  
Superintendent  
DOCUMENT TYPE: Response to Information Requests  
CONFIDENTIAL: **No**

Thank you for your assistance in this matter.

Very truly yours,

/s/ Christopher T. Roach

cc: Thomas C. Sturtevant, Esquire  
Christina M. Moylan, Esquire  
Judith M. Shaw, Deputy Superintendent  
James Bowie, Esquire  
Joseph Ditre, Esquire

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In re: ANTHEM BLUE CROSS AND	)	
BLUE SHIELD 2008 INDIVIDUAL	)	APPLICANT'S RESPONSE TO FIRST
RATE FILING FOR	)	INFORMATION REQUEST OF THE
HEALTHCHOICE, HEALTHCHOICE	)	SUPERINTENDENT
STANDARD AND BASIC	)	
PRODUCTS	)	
	)	
	)	
	)	
Docket No. INS-07-1000	)	<b>October 1, 2007</b>
	)	
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STATE OF MAINE  
DEPARTMENT OF PROFESSIONAL AND FINANCIAL REGULATION  
BUREAU OF INSURANCE

IN RE:	)	
	)	
ANTHEM BLUE CROSS AND BLUE	)	
SHIELD 2008 INDIVIDUAL RATE	)	APPLICANTS' RESPONSE TO
FILING FOR HEALTHCHOICE,	)	FIRST INFORMATION REQUEST
HEALTHCHOICE STANDARD AND	)	OF THE SUPERINTENDENT
BASIC PRODUCTS	)	
	)	
Docket No. INS-07-1000	)	October 1, 2007

Applicant Anthem Health Plans of Maine, Inc., d/b/a Anthem Blue Cross and Blue Shield ("Anthem BCBS") hereby responds to the First Information Request of the Superintendent dated September 25, 2007 as follows:

The Superintendent's First Requests instruct that "[i]n producing the requested information, Anthem shall furnish all information regardless of whether it is in the possession of Anthem or any subsidiary, affiliate, or parent of Anthem." For clarity, Anthem BCBS notes that the information typically sought in these proceedings resides with Anthem BCBS, that there are numerous subsidiaries and affiliates of Anthem BCBS, and that Anthem BCBS's ultimate parent company is WellPoint, Inc. It would not be possible to inquire of all subsidiaries, affiliates and parents whether they have responsive information and still produce responses within the four business days required by the Procedural Order. Accordingly, Anthem BCBS has gathered responsive information that is in the possession of Anthem BCBS and responds below, accordingly.

1. Anthem's most recent quarterly financial statement shows 36,376 individual members. Please provide a breakdown of this number by product (*i.e.* HealthChoice, Lumenos, HMO, and any other individual products).

**Response:** The breakdown from the most recent quarterly financial statement is:

HealthChoice: 23,465  
Dirigo: 11,109  
Lumenos CDHP: 386  
Anthem by Design HSA: 1,357  
Individual HMO: 35  
Retiree "a": 24  
Total: 36,376

2. In response to Question 14 of the Superintendent's First Information Request in last year's proceeding (Bureau of Insurance Docket No. INS-06-1000), Anthem stated that a revised actuarial memorandum would be provided as a hearing exhibit with corrected language to replace the statement that rates for two adults in different age bands are determined by the younger of the two. However, the memorandum provided as a hearing exhibit did not include this correction. Page 5 of the current filing again states that rates for two adults in different age bands are determined by the younger of the two. Please explain or provide a correction.

**Response:** The change in the language was inadvertently excluded. Attached is an amended memorandum reflecting this correction.

3. Page 5 of the filing states that when a subscriber changes age bands due to a birthday, the new rate for the higher age band will go into effect on January 1. In response to Question 15 of the Superintendent's First Information Request in last year's proceeding (Bureau of Insurance Docket No. INS-06-1000), Anthem clarified that the effective date is actually the effective date of the rate increase, whether or not that is January 1. If this is still accurate, please provide a correction.

**Response:** The effective date of an age band change is the effective date of the rate change, whether or not it is on January 1. The attached amended memorandum reflects this correction.

4. Page 5 of the filing shows proposed revisions to the contract type factors. However, page 11 states that Anthem is not proposing any change in the contract type factors. Please explain or provide a correction.

**Response:** Page eleven is in error. The attached amended memorandum reflects this correction.

5. Please provide separate tables for each age band in the same format as the table included in your response to question 5 of the Attorney General's First Information Request.

**Response:** Tables comparing claim costs for varying contract types by age band are presented below. The family costs per contract type in total are slightly different from those presented in response to question 5 of the Attorney General's First Information Request due to an inaccurate contract count presented in the original response.

<b>Subscriber Age &lt;30</b>		ratio	current
<u>contract type</u>	<u>claim pcpm</u>	<u>to one adult</u>	<u>rating factor</u>
one adult	\$159	1.00	1.00
two adults	\$115	0.72	2.00
two adults and child(ren)	\$436	2.73	2.65
one adult and child(ren)	\$152	0.96	1.65

<b>Subscriber Age 30-39</b>		ratio	current
<u>contract type</u>	<u>claim pcpm</u>	<u>to one adult</u>	<u>rating factor</u>
one adult	\$237	1.00	1.00
two adults	\$417	1.76	2.00
two adults and child(ren)	\$261	1.10	2.65
one adult and child(ren)	\$247	1.04	1.65

<b>Subscriber Age 40-44</b>		ratio	current
<u>contract type</u>	<u>claim pcpm</u>	<u>to one adult</u>	<u>rating factor</u>
one adult	\$259	1.00	1.00
two adults	\$148	0.57	2.00
two adults and child(ren)	\$281	1.08	2.65
one adult and child(ren)	\$283	1.09	1.65

<b>Subscriber Age 45-54</b>		ratio	current
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<u>contract type</u>	<u>claim pcpm</u>	<u>to one adult</u>	<u>rating factor</u>
one adult	\$235	1.00	1.00
two adults	\$392	1.66	2.00
two adults and child(ren)	\$463	1.97	2.65
one adult and child(ren)	\$378	1.61	1.65

**Subscriber Age 55-64**

<u>contract type</u>	<u>claim pcpm</u>	<u>ratio</u> <u>to one adult</u>	<u>current</u> <u>rating factor</u>
one adult	\$379	1.00	1.00
two adults	\$599	1.58	2.00
two adults and child(ren)	\$677	1.79	2.65
one adult and child(ren)	\$594	1.57	1.65

**Subscriber Age 65+**

<u>contract type</u>	<u>claim pcpm</u>	<u>ratio</u> <u>to one adult</u>	<u>current</u> <u>rating factor</u>
one adult	\$558	1.00	1.00
two adults	\$612	1.10	2.00
two adults and child(ren)		0.00	2.65
one adult and child(ren)		0.00	1.65

**Total(all age bands)**

<u>contract type</u>	<u>claim pcpm</u>	<u>ratio</u> <u>to one adult</u>	<u>current</u> <u>rating factor</u>
one adult	\$305	1.00	1.00
two adults	\$490	1.61	2.00
two adults and child(ren)	\$378	1.24	2.65
one adult and child(ren)	\$346	1.13	1.65

6. Regarding the continuation of coverage for dependent children up to age 25, Page 10 of the filing states, “It is necessary to consider a number of potential implications including but not limited to: newly covered dependents who will add no new premium (a dependent added to an existing family contract), newly covered dependents who will add new premium (a dependent added to an existing one adult or two adult contract), and the potential for adverse selection (subscribers more often adding dependents with health conditions than those that are healthy).” However, the analysis in Exhibit XIII does not explicitly reflect any new premium for dependents added to existing one adult or two adult contracts. Please explain.

**Response:** In the case when new dependents are added to existing one adult or two adult contracts it is assumed that new premiums will be offset by new claims. The demonstration in Exhibit XIII reflects the instances in

which there will be new claims not offset by new premiums.

7. Your response to question 15 of the Attorney General's First Information Request states that changes in the enrollment distribution are the primary contributor to the difference between the annual claim trend and the average rate increase included in the filing. Exhibit II shows that the projected change in enrollment reduces the average claim per contract by 7.4% [ $1 - 0.926$ ]. Exhibit III shows that the projected change in enrollment reduces the average premium per contract by 6.5% [ $(63,303,001 / 133,043) / (91,065,069 / 179,404) - 1$ , where 133,043 and 179,404 are the sums of the enrollment numbers for the projected period and the base period respectively]. Since the changes in the enrollment distribution reduce claims by a greater percentage than they reduce premium, why would they result in an average rate increase greater than the claim trend rather than less?

**Response:** Question 15 of the AG's First Information Request in our view is somewhat meaningless because it seeks to compare 2007 *projected* (rather than actual) data with the projections for 2008. That said, the data comparison presented in this question caused us to revisit our response to the Attorney General's question. While we ultimately remain confident in our conclusion that it is reasonable to expect that the average rate increase should be higher than the annual claim trend, the explanation is more complicated than simply changes in enrollment distribution. Below is a more fulsome explanation of why the average rate increase is higher than the annual claim trend.

First, while the impact of enrollment changes does not provide the full explanation, evaluating the data across different exhibits does not always yield comparable results. For example, Exhibit I uses a claim base of twelve months ending April 30, 2007 in order to utilize a claim period with sufficient runout to accurately estimate incurred claims with limited variability. Exhibit IX uses observed financial data through June, 2007. Therefore comparing these two documents can result in differences.

The second factor that contributes to the difference between the average increase and the annual trend is the impact of the hearing aid mandate and the expansion of the dependent age.

Third, question 15 of the Attorney General's First Information Request reads in part, "the target loss ratio for calendar year 2008 is virtually the same as the loss ratio generated from the experience in 2007". Presumably the "loss ratio generated from the experience in 2007" refers to the projected loss ratio in Exhibit IX which is based on projections.

In this filing we are proposing rate changes based on projections from observed periods, not projecting from projections. When comparing loss ratios, annual claim trends, and average rate increases it is more reasonable to compare loss ratios from the base observed period and the projected rating period. The loss ratio for the twelve month period ending April 30, 2007 is approximately 90%. Because the actual loss ratio for the base observed period is higher than the projected loss ratio for 2008, coupled with the many other variables impacting this calculation, it is reasonable to expect the average rate increase to be higher than the annual claim trend.

8. Page 16 of the filing states that Exhibit X presents historical distributions of enrollment by benefit option along with the rates of change in those distributions. The rates of change are hard-coded in the right-hand portion of the spreadsheet and do not appear consistent with the changes in the contract distribution shown on the left-hand portion of the spreadsheet. Please explain how the rates of change were calculated.

**Response:** The contract changes by product option are correct. The contract distributions by product options are incorrect due to a calculation error. A corrected version of Exhibit X is included with this response. For ease of review, the amended exhibit also includes the actual contract counts from which the percentages were derived.

9. Page 17 of the filing states that Exhibit XIV reflects a decrease of 14.9% in the proposed rates for the Preventive Care and Supplemental Care Accident Rider. However, the rates shown reflect larger decreases from the currently approved rates. Please explain or provide a correction.

**Response:** Rates for the Preventive Care and Supplemental Care Accident Rider decreased by 14.9% for one adult and two adult contracts. For two adults with child(ren) and one adult with child(ren) the rates decreased by 18.8% and 19.9% respectively due to the change in the contract type factors.

10. The loss ratios in Exhibit IX reflect both claims and the savings offset payment for 2007 and 2008 but only claims for 2006. Please explain or provide a correction.

**Response:** The loss ratio calculation for 2006 inadvertently did not include the savings offset payment. A revised Exhibit IX is included with this response.

11. Please explain why the loss ratio in Exhibit IX for the second half of 2007 excluding the savings offset payment is projected to be 27.9 points higher than for the first half of 2007. How does this compare to the change in the loss ratio between the first half and the second half of previous years?

**Response:** Due to the impact of cost sharing claims are typically significantly higher in the latter half of the year while premium is relatively consistent throughout the year. This leads to large variances in the loss ratio between the first and second half of the year. For example, in 2004, 2005, and 2006 the ratio of claims on a per member per month basis for the latter half of the year compared to the first half of the year were 1.323, 1.312, and 1.219 respectively. Assuming consistent premium on a per member per month basis for the year results in first half to second half loss ratio differences of 22.7%, 24.0%, and 18.3% respectively for 2004, 2005, and 2006.

12. Exhibit IX shows a projected increase in 2008 in the ratio of members to contracts. The increase projected last year for 2007 did not occur. Please explain why it is realistic to assume an increase in 2008.

**Response:** Members for each benefit option for projected months are determined based on the average monthly rate of change exhibited over the past year applied to the most recent observed period. The number of contracts for each projected month is then determined using one method for benefit options with significant enrollment and another for benefit options with limited enrollment. This is consistent with last year's filing and is described here:

1. For benefit options \$5,000 deductible, \$10,000 deductible, \$15,000 deductible, \$5,000 deductible with preventive care/supplemental accident, and \$15,000 deductible with preventive care/supplemental

accident:

The member/contract ratio for the most recent observed month (June2007) is multiplied by the average rate of change in the member/contract ratio for the most recent three observed months (June2007/May2007, May2007/April2007, and April2007/March2007). The projected number of members is then divided by this factor in order to determine the projected contracts.

2. For all other benefit options the number of members for each projected month is divided by the member/contract ratio for the most recent observed month (June2007) in order to determine the number of contracts.

The total number of members for 2008 is divided by the total number of contracts for 2008 resulting in the member/contract ratio. Therefore the projected member/contract ratio is not chosen but rather the result of a reasonable and objective projection of both members and contracts.

13. Exhibit XI estimates commissions for 2008 but four of the column headings say 2007. Please explain or provide a correction.

**Response:** The column headings should read 2008. This is a labeling error and does not impact the calculation of the commission estimate for 2008. A corrected version of Exhibit XI is included with this response.

DATED: October 1, 2007

/s/ Christopher T. Roach  
Christopher T. Roach, Esq.

PIERCE ATWOOD LLP  
One Monument Square  
Portland, Maine 04101  
*Attorney for Applicant*

## CERTIFICATE OF SERVICE

The undersigned hereby certifies that on October 1, 2007, a copy of the Non-Confidential Version of Applicant's Response to the First Information Request of the Superintendent was served in the manner indicated on each of the persons listed below:

Thomas C. Sturtevant, Esq. (via electronic mail and U.S. Mail)  
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DATED October 1, 2007

/s/ Christopher T. Roach  
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